

1.0 Insurance Department

Summary	The Utah Code 31A-2-101 states that “The Insurance Department shall administer the Insurance Code, seeking to achieve the purposes in Section 31A-1-102, and shall perform other duties imposed by law.
Department Mission Statement	The Insurance Department is a service organization that protects the public and consumer of insurance products by reasonably and fairly regulating the Utah insurance industry. It works to foster a competitive insurance market within the State. The Department monitors and promotes the solvency of insurance companies in Utah.
Organizational Structure	<p>The Department is divided into seven sections funded from the General Fund. Traditionally, they have been considered one budget. These funds are offset by fees collected by the Department and deposited into the General Fund. The Department recently reorganized work processes along lines of insurance. Activity, function and structure are being regrouped to reduce processing time, improve Department efficiency, and enhance customer service. Fees are collected for a variety of activities in addition to licensing of agents and brokers.</p> <p>The Utah State Insurance Department is operated under the direction of the Insurance Commissioner. The Commissioner has a Deputy Commissioner and an Assistant Commissioner, each with delegated responsibilities. The organization chart on the last page does not adequately reflect the structure of the Department since all sections are staffed through the Administrative Division. The Department has recently reorganized along lines of insurance rather than function in an effort to improve efficiency.</p>
Utah Tomorrow	The Department of Insurance has been intimately involved with Utah Tomorrow since its inception. A section in the Free Enterprise and Regulatory Systems lists the benchmarks related to the Department’s goals and activity. Tracking is primarily done within the sections but compiled by personnel in the Administrative Division. Each of the provisions of the mission statement are related to an item in Utah Tomorrow. Most of the benchmarks are process or activity related. It is difficult to do accurate performance measurement to evaluate the benefit of a service like insurance.

Financial Summary

	FY 1999	FY 2000
Financing	Estimated	Analyst
General Fund	\$3,392,600	\$3,396,200
Dedicated Credits	885,500	893,700
Beginning Nonlapsing	661,000	691,500
Closing Nonlapsing	(691,500)	(753,700)
Total	\$4,247,600	\$4,242,700
Programs		
Administration	\$3,412,600	\$3,426,200
Insurance Relative Value Study	50,000	0
Insurance Fraud Program	748,200	758,000
Building Blocks	0	15,000
Total	\$4,247,600	\$4,242,700
Standard FTE	75.00	75.00
Expansion FTE	0.00	0.00

2.0 Budget Highlights: Insurance Department

2.1 Insurance Fees

The Insurance Department collects more in fees to the General Fund than it receives in appropriation. A brief history is listed below. Over the last eleven years, the Department has collected over \$7 million more than they utilized. The department collection of fees is authorized under UCA 31A-3-103 and in FY 98 the department collected over \$4.0 million in fees. The department collected \$1.6 million in surplus line taxes (insurance written by non-admitted companies), and in FY 98 the insurance industry paid to the Tax Commission \$74.6 million on estimated insurance premiums. The premium taxes are deposited directly into the General Fund.

Fiscal Year	FY 1996	FY 1997	FY 1998
Revenue	\$3,457,584	\$3,918,253	\$4,083,388
Appropriation	3,043,099	3,082,600	3,211,000
Difference	<u>\$ 414,485</u>	<u>\$ 835,653</u>	<u>\$ 872,388</u>

2.2 Bail Bond Program Transferred From Courts

House Bill 376 from the 1998 General Session transferred the Bail Bond Program oversight from the Courts to the Department of Insurance. Funding of \$15,000 Restricted Revenue from fees and penalties is used for staff and board expenses. Funding is recommended to be transferred from the courts for both FY 1999 and FY 2000.

Bail Bond	FY 2000
Ongoing Funding	Analyst
General Fund Restricted	<u>\$15,000</u>
Expenditures	
Travel	\$2,000
Current Expense	13,000
Total	<u>\$15,000</u>

2.3 The Need For Processing Staff

The Department has experienced a workload increase of over 60 percent over the last three years. Processing time for agent and broker licenses has increased. The Department has requested 4 FTE to address the workload increase. The positions would be: 1) two office technician II; 2) one health insurance specialist; and 3) one rate and forms specialist. These positions would be funded with General Fund. The General Fund would be supplemented with increased revenue from fee increases making this a revenue neutral request. The Department has reported that the industry has requested this assistance to expedite the processing time and has agreed to the fee increase, if the revenue was used by the Department. Funding of \$160,100 General Fund would be needed for personal services and the expenses for four additional staff. This is an issue for the Subcommittee to address.

**2.4 Additional
Prosecution Staff**

The Insurance Department has experienced a significant increase in agents and brokers. This increase is also reflected in the number of fraud cases. The Division has over 45 cases that are awaiting prosecution due to a backlog in the caseload. Funding is available, but the Division has not been authorized FTE count to use an additional prosecutor from the Attorney General's Office. The Fraud Division has sufficient revenue to contract with the Attorney General's Office for an additional prosecuting attorney. Using the Dedicated Credit revenue along with the Nonlapsing Balances provides adequate funding for an attorney, a legal secretary and an additional division secretary. The total cost would be an additional \$149,000 which is already in the budget.

3.1 Programs: Insurance Department - Administration

Recommendation

The Analyst recommends funding of \$3,164,000 General Fund. This funding is for all Department personnel other than those listed in the Fraud Division. This base recommendation does not include the building blocks which will also be recommended for this budget.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
General Fund	\$3,161,000	\$3,392,600	\$3,396,200	\$3,600
Beginning Nonlapsing	67,600	50,000	30,000	(20,000)
Closing Nonlapsing	(50,000)	(30,000)		30,000
Lapsing	(31,600)			0
Total	\$3,147,000	\$3,412,600	\$3,426,200	\$13,600
% Change		8.4%	0.4%	
Expenditures				
Personal Services	\$2,673,500	\$2,992,600	\$2,995,500	\$2,900
Travel	34,600	42,200	42,200	0
Current Expense	178,100	193,900	217,600	23,700
Data Processing	248,000	162,100	170,900	8,800
DP Capital		10,000		(10,000)
Capital Outlay	12,800	11,800	0	(11,800)
Total	\$3,147,000	\$3,412,600	\$3,426,200	\$13,600
% Change		8.4%	0.4%	
Standard FTE	66.00	66.00	66.00	0.00
Enhancement FTE				0.00

Summary

Administration manages the other divisions and is responsible for budgeting, financial tracking, personnel, actuarial services, and managerial statistics. It has 14 FTEs.

Information Technology is responsible for all of the data processing equipment and maintenance in the department which includes the LAN/WAN. This division has 5 FTEs.

Producer Services has 5 FTEs and is responsible for the issuance and renewal of licenses to all Utah insurance agents and agencies. Licensees qualify through examination. In FY 98, the division issued 7,147 new agent licenses for a total of 22,280.

Financial Examination and Company Licensing/Solvency Division licenses 1,504 insurance companies to do business in Utah. It also monitors financial strength and solvency. The division is responsible for the financial examination of insurers according to statute. Because not all of the companies are headquartered in Utah, the examiners may spend their time out of state. The Insurance Department is reimbursed by the insurer being examined for all costs incurred during the examination, which includes examiners' salaries and benefits. These reimbursements are deposited into the General Fund. The section has 16 FTEs.

Consumer Service has 6 FTEs that handle about 35,000 telephone and walk-in complaints and inquiries, and 1,000 formal complaints about agents and companies annually. This division recovered approximately \$1,170,000 for consumers.

Compliance and Enforcement investigates and resolves alleged violations of the insurance code and rules by those involved with the business of insurance. The division collected \$169,250 in forfeitures. They also issued 335 disciplinary actions. It has 7 FTEs.

The **Product Analysis Division** reviews and analyzes policy forms and rates which are filed by insurance companies. This division has seven FTEs.

Bail Bond Insurance

House Bill 376 from the 1998 General Session transferred the Bail Bond Program oversight from the Courts to the Department of Insurance.

The Insurance Department now has the statutory responsibility of regulating the bail bond surety industry and bail bond agents operating in Utah (Title 31A-23-35) to ensure that all bail bond sureties and bail bond agents demonstrate adequate preparation, competency, and practice honesty and integrity. The Department is to ensure that Utah has a strong bail bond surety insurance market that actively supports the needs of our citizens, judiciary, and law enforcement organizations for reliable bail bond sureties, bail bond agents, and bail bonds at competitive prices. Assistance is to be provided to the public through information and education. Along with this program is the responsibility to investigate and prosecute all unprofessional conduct by bail bond sureties or bail bond agents. Staff is provided to the Bail Bond Surety Oversight Board who reviews new licensing applications and reviews complaints from the public about bail bond sureties or bail bond agents.

Funding of \$15,000 Restricted Revenue from fees and penalties is used for staff and board expenses. Funding is recommended to be transferred from the courts for both FY 1999 and FY 2000.

Performance Measures

	<u>FY 1997</u>	<u>FY 1998</u>
New Agent Licenses	4,855	7,147
Forfeiture Collections*	\$427,880	\$169,250
Disciplinary Actions	369	335
Consumer Claims Recovered	\$1,400,000	\$1,170,000

* - One time collection of \$251,000 company fine.

3.2 Programs: Insurance Department - Insurance Relative Value Study**Recommendation**

The Analyst recommends a budget of \$50,000. Funding is made with Dedicated Credits collected from insurance companies. Sufficient funds are available to adequately fund the study.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits	\$48,100	\$50,000	\$50,000	\$0
Beginning Nonlapsing	297,700	345,800	345,800	0
Closing Nonlapsing	(345,800)	(345,800)	(395,800)	(50,000)
Total	\$0	\$50,000	\$0	(\$50,000)
% Change		0.0%	(100.0%)	
Expenditures				
Current Expense	\$0	\$50,000	\$0	(\$50,000)
Total	\$0	\$50,000	\$0	(\$50,000)
% Change		0.0%	(100.0%)	
Standard FTE	0.00	0.00	0.00	0.00
Enhancement FTE				

Summary

Under UCA 31A-22-307, the Relative Value Study is to determine the reasonable value of medical expenses. The study is updated every other year with FY 2000 being a year that does not need any expenditures. It is funded by a 0.01 percent tax on motor vehicle liability, uninsured motorist, and personal injury protection insurance premiums. These funds are collected by the Tax Commission as Dedicated Credits and are made non-lapsing in the Utah Code. The study is produced by Relative Value Studies, Inc. of Denver. The contract to do the study is rebid every three years. The Department charges \$10 per copy.

More Dedicated Credits have been collected over the years than are needed to fund the study. The collection rate was reduced by the 1997 Legislature. Increased population and improved collections have maintained more than sufficient revenue to fund the biennial study.

Nonlapsing Balances

By statute, taxes collected for this study are nonlapsing. The Legislature should consider lowering the collection tax rate again. It appears that more than sufficient revenue is available to fund the study which generally costs less than \$30,000 every second year. Another possible solution would be to lower or eliminate the sale of the study and just distribute it for free. Taxed entities that purchase the study are being double billed.

Performance Measures

This area is to produce the Relative Value Study which is accomplished every second year and reported to the Legislature.

3.3 Programs: Insurance Department - Fraud Division

Recommendation The Analyst recommends a continuing budget of \$669,100. This budget provides eight staff to perform fraud investigations and handle an increasing caseload.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits	\$785,500	\$785,500	\$793,700	\$8,200
Beginning Nonlapsing	158,800	265,200	302,500	37,300
Closing Nonlapsing	(265,200)	(302,500)	(338,200)	(35,700)
Total	\$679,100	\$748,200	\$758,000	\$9,800
% Change		10.2%	1.3%	
Expenditures				
Personal Services	\$425,900	\$475,700	\$485,500	\$9,800
Travel	5,300	7,800	7,800	0
Current Expense	211,600	224,300	224,300	0
Data Processing	36,300	40,400	40,400	0
Total	\$679,100	\$748,200	\$758,000	\$9,800
% Change		10.2%	1.3%	
Standard FTE	8.00	8.00	8.00	0.00
Expansion FTE			0.00	0.00

Summary

The 1994 Legislature created the Insurance Fraud Act (UCA 31A-31-101 through 108). This division is charged with the responsibility of conducting criminal investigations and prosecutions of insurance fraud violators. Utah residents pay more than \$350 million annually (10 percent of insurance premiums) to cover the costs of fraudulent claims.

The program is funded by assessments made on insurers based on the amount of business they do in Utah according to the following table:

Total Utah Premiums	Assessment
\$1,000,000 or less	\$75
>\$1,000,000 to \$2,500,000	\$263
>\$2,500,000 to \$5,000,000	\$563
>\$5,000,000 to \$10,000,000	\$1,125
>\$10,000,000 to \$50,000,000	\$4,500
More than \$50,000,000	\$11,250

These funds are collected as Dedicated Credits that are designated non-lapsing in the Utah Code.

Additional FTE

The Insurance Department has experienced a significant increase in agents and brokers. This increase is also reflected in the number fraud cases. The Division has over 45 cases that are awaiting prosecution due to a backlog in the caseload. Funding is available, but the Division has not been authorized FTE count to use an additional prosecutor from the Attorney General's Office. The Analyst recommends authorizing the Division to utilize all Dedicated Credits and Nonlapsing balances estimated and to hire or contract with the three additional personnel to reduce the backlog. The total cost would be an additional \$149,000.

Performance Measures

Process oriented measures	FY 95	FY 96	FY 97	FY 98
Cases opened	111	101	121	143
Prosecutions initiated	42	37	64	68
Sentences handed down	13	31	26	28

A limiting factor to final resolution of cases is the court process

3.4 Programs: Insurance Department - Title Insurance

Recommendation The Analyst recommends funding of \$43,500 using the Dedicated Credits and Nonlapsing Balances. More than sufficient revenue is estimated to be collected to cover the costs involved with the oversight by the Department of Insurance.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits	\$0	\$50,000	\$50,000	\$0
Beginning Nonlapsing			13,200	13,200
Closing Nonlapsing		(13,200)	(19,700)	(6,500)
Total	\$0	\$36,800	\$43,500	\$6,700
% Change		0.0%	18.2%	
Expenditures				
Personal Services	\$0	\$33,300	\$43,500	\$10,200
Data Processing		3,500		(3,500)
Total	\$0	\$36,800	\$43,500	\$6,700
% Change		0.0%	0.0%	
Standard FTE		1.00	1.00	1.00
Enhancement FTE				

Summary

The 1998 Legislature passed House Bill 265, Title Insurance Amendments, which created Utah Code 31A-23-315. The new law allows an assessment on title insurance companies and agencies to pay for any cost or expense incurred by the Department in administration, investigation and enforcement of code provisions as related to the marketing of title insurance. The need to regulate the marketing of title insurance has been realized by the title insurance industry and the Department. This program provides an additional qualified person (1 FTE) who will respond to industry complaints. This program is time limited with a sunset repeal date of July 1, 2001.

Performance Measures

None reported.

3.5 Programs: Insurance Department - Fees

The Insurance Department has a listing of fees that must be approved and included into the Appropriations Act. The following fees are recommended for FY 2000. The fees recommended generate enough additional revenue to fund the four FTE to address the processing issues.

Fee Title	FY 1999 Current Rate	FY 2000 Proposed Rate	Change Inc. / Dec.	Revenue
Initial Certificate of Authority (foreign and domestic)	500.00			
Continuation of Certificate of Authority (annual)	50.00			
Reinstatement of Certificate of Authority	500.00			
Redomestication Filing	750.00			
Filing of Amended Certificate of Authority	100.00			
Filing of Amendments to Articles of Incorporation, Charter, or Bylaws	25.00			
Filing Annual Statement and Report of Utah Business	250.00			
Application for merger, acquisition of change of control (Form A)	1,500.00			
Application for Material Transaction between Affiliated Companies (Form B)	25.00			
Application for Prior Notice of Transaction (Holding Company Act) (Form D)	100.00			
Application for Stock Solicitation Permit				
Public Offering, but not a SEC filing	1,000.00			
Private Placement and/or SEC filing	250.00			
Application for Accredited Reinsurer	500.00			
Application for Renewal for Accredited Reinsurer	250.00			
Application for Trusteed Reinsurer	500.00			
Application for Renewal for Trusteed Reinsurer	250.00			
Individual License to Solicit in				
Accordance with the Stock Solicitation Permit	50.00			
Filing Annual Statement and Renewal of Fraternal	50.00			
Organizational Permit for Mutual Insurer	500.00			
Filing of Registered Agent	10.00			
Affixing Commissioner's Seal	10.00			
Risk Retention Group Annual Statement Filing	250.00			
Initial Rate Service Organization License	250.00			
Application for Surplus Lines License	500.00			
Surplus Lines Annual Statement Filing	250.00			
Annual Renewal of Rate Service Organization License	50.00			
Filing Policy Forms, Rates, Rules and Related Documents, each	15.00	<u>20.00</u>		237,000.00
Workers' Compensation Schedule	5.00			
Life Illustration Certification Filing	30.00			
Risk Purchasing Group Initial Filing	100.00			
Risk Purchasing Group Renewal	100.00			
Third Party Administrator License, or renewal, per year, or fraction thereof	30.00	<u>0.00</u>		(3,600.00)

Legislative Fiscal Analyst

Agency License, resident or nonresident, or renewal, -per two year or fraction thereof (includes the first 20 -or any number up to 20 listed designees on such license	30.00	<u>0.00</u>	(72,000.00)
Agent's License, resident or nonresident, or renewal, -per two-year period, or fraction thereof	30.00	<u>0.00</u>	(600,000.00)
Consultant's License, resident or nonresident, or -renewal, per two year period or fraction thereof	40.00	<u>0.00</u>	(3,400.00)
Broker's License, resident or nonresident, or renewal -per two-year period, or fraction thereof	40.00	<u>0.00</u>	(13,000.00)
Adjuster License or renewal, per two-year period, -or fraction thereof	40.00	<u>0.00</u>	(7,200.00)
Surplus Lines Broker's License, or renewal, per year -or fraction thereof	40.00	<u>0.00</u>	(4,400.00)
Managing General Agent License, or renewal, per -two-year period, or fraction thereof	40.00	<u>0.00</u>	0.00
<u>Res & Nonres Full Line Producer License</u> (initial & renewal)	0.00	<u>60.00</u>	1,307,500.00
<u>Res & Nonres Limited Line Producer</u> <u>License (initial & renewal)</u>	30.00	<u>45.00</u>	
<u>Res & Nonres Agency License (initial</u> <u>& renewal)</u>	0.00	<u>60.00</u>	240,000.00
<u>Addition of producer classification or</u> <u>line of authority to individual producer</u> <u>license or agency license</u>	0.00	<u>25.00</u>	91,250.00
<u>Amendment to Agency License or for each</u> <u>-Designee added to an agency license</u>	12.00	<u>0.00</u>	(28,000.00)
<u>Termination of designee from an agency license</u>	10.00	<u>0.00</u>	(10,000.00)
<u>Agency Designee Appt./Term./Renewal</u>	0.00	<u>12.00</u>	40,800.00
<u>Appointment Certificate of Agent, or renewal, per</u> <u>-two-year period, or fraction thereof</u>	12.00	<u>0.00</u>	(360,000.00)
<u>Termination of Agent Certificate of Appointment</u>	5.00	<u>0.00</u>	(50,000.00)
<u>Agent Appt. or Termination or Renewal</u>	0.00	<u>12.00</u>	625,000.00
<u>Issuance of Duplicate License/Code Changes</u> <u>-in Existing License</u>	10.00	<u>0.00</u>	(10,000.00)
<u>Issuance of Certification/Clearance Letter</u>	10.00	<u>0.00</u>	(64,000.00)
<u>License Processing Fee (first time)</u>	10.00	<u>0.00</u>	(35,000.00)
Authorization to Appoint & Remove Agents	10.00	<u>10.00</u>	5,000.00
Power of Attorney (excludes individual producer licenses and agency licenses)	10.00	<u>10.00</u>	(98,000.00)
<u>Filing Certificate(s) or other proof of completion of</u> <u>Continuing education fee, per individual</u>	10.00		
Continuing Education Provider Application, or renewal, per provider	100.00		
Continuing Education Course Post-Approval \$5 per credit hour, minimum fee	25.00		
Photocopy, per page	25 cents		
Copy Complete Annual Statement, per book	40.00		
Accepting Service of Legal Process	10.00		
Copy of Department's Annual Report to Governor	10.00		
Issuance of Mailing Lists, or computer print-outs, per page	1.00		

Electronic Format List (company, agency, individual), up to 500 records, minimum fee of \$50; over 500 records, \$.10 per record up to maximum of \$500.	50.00		
Relative Value Study Book	10.00		
Returned Check Charge	15.00		
Bail Bond Surety Certificate of Authority (restricted revenue) 31A-23 & 35	0.00	<u>500.00</u>	14,000.00

TOTAL DED CREDITS & RESTR. REV.

*** Fee combined into one global licensing fee**

Department:	1,201,950.00
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Line Item/Division:

4.0 Tables: Insurance Department

Programs	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimated	FY 2000 Analyst
Administration	\$2,982,400	\$2,954,900	\$3,147,000	\$3,412,600	\$3,426,200
Insurance Relative Value Study	0	26,800	0	50,000	0
Insurance Fraud Program	450,100	530,000	679,100	748,200	758,000
Insurance Title	14,200	100	0	36,800	43,500
Building Blocks					15,000
Total	\$3,446,700	\$3,511,800	\$3,826,100	\$4,247,600	\$4,242,700
% Change	2.5%	1.9%	8.9%	11.0%	(0.1%)

Financing	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimated	FY 2000 Analyst
General Fund	\$2,988,200	\$3,082,600	\$3,161,000	\$3,392,600	\$3,396,200
General Fund Restricted	0	0	0	0	15,000
Dedicated Credits	526,000	626,000	833,600	885,500	893,700
Beginning Nonlapsing	396,500	455,000	524,100	661,000	691,500
Closing Nonlapsing	(455,000)	(524,100)	(661,000)	(691,500)	(753,700)
Lapsing	(9,000)	(127,700)	(31,600)	0	0
Total	\$3,446,700	\$3,511,800	\$3,826,100	\$4,247,600	\$4,242,700
% Change	2.5%	1.9%	8.9%	11.0%	(0.1%)

Expenditures	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimated	FY 2000 Analyst
Personal Services	\$2,660,200	\$2,824,900	\$3,099,400	\$3,501,600	\$3,524,500
Travel	76,300	69,300	39,900	50,000	52,000
Current Expense	413,600	362,100	389,700	468,200	454,900
Data Processing	99,700	164,500	284,300	206,000	211,300
DP Capital	50,300	29,500	0	10,000	0
Capital Outlay	152,300	61,500	12,800	11,800	0
Total	\$3,446,700	\$3,511,800	\$3,826,100	\$4,247,600	\$4,242,700
% Change	2.5%	1.9%	8.9%	11.0%	(0.1%)
Standard FTE	68.00	68.00	74.00	75.00	75.00